

Message Text

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TO SECSTATE WASHDC 5445

INFO USMISSION EC BRUSSELS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 30045, DECEMBER 13, 1974

1. SUMMARY. LONG-AWAITED MODIFICATION IN GOF CREDIT
POLICY ANNOUNCED BY FINANCE MINISTER FOURCADE DECEMBER 20
BUT WHILE DESCRIBED OFFICIALLY AS "SIMPLER AND MORE
FLEXIBLE," NEW RESTRICTIONS REPRESENT VIRTUALLY NO
RELAXATION OF CREDIT SQUEEZE THROUGH MID-1975. NOVEM-
BER TRADE FIGURES (ADMITTEDLY DISTORTED BY EFFECTS OF
POSTAL STRIKE) SHOW SHARP REDUCTION IN MONTHLY DEFICIT
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AND SUGGEST TOTAL TRADE DEFICIT FOR 1974 MAY BE WELL

BELOW TARGET SET BY GOF LAST SUMMER. NEAR-TERM ECONOMIC
OUTLOOK REMAINS GLOOMY FOR SOME MONTHS INTO 1975.
END SUMMARY.

2. GOF MODIFIES CREDIT, SAVINGS POLICIES -

IN DECEMBER 20 PRESS CONFERENCE, FINANCE MINISTER
FOURCADE ANNOUNCED "SIMPLER AND MORE FLEXIBLE" SERIES
OF MEASURES MODIFYING PRESENT SYSTEM OF CREDIT RESTRIC-
TIONS AND PROVIDING GREATER INCENTIVES FOR SAVINGS
THROUGH RISE IN INTEREST RATES. CEILINGS ON BANK
LENDING TO BE MAINTAINED BUT WILL HENCEFORTH BE BASED
ON AVERAGE LEVELS OF CREDITS TO ECONOMY AUTHORIZED
DURING SECOND HALF OF 1974. (AT PRESENT, CEILINGS
ARE BASED ON LEVEL IN CORRESPONDING MONTH OF PREVIOUS
YEAR.)

WITH SECOND HALF 1974 AS BASE, BANKS WILL BE
AUTHORIZED TO INCREASE LENDING BY 2 PERCENT THROUGH
END MARCH AND 5 PERCENT BY END JUNE 1975; AS SUCH, NEW
CREDIT POLICY REPRESENTS VIRTUALLY NO RELAXATION OF
SQUEEZE AS PRESENTLY APPLIED (CURRENT CEILING IS
12 PERCENT INCREASE OVER YEAR-EARLIER LEVEL). EXPORT
SECTOR, HOWEVER, WILL CONTINUE TO RECEIVE FAVORED TREAT-
MENT: BANKS AND CREDIT INSTITUTIONS ALLOWED TO INCREASE
SHORT-TERM EXPORT CREDITS BY 4 PERCENT IN FIRST QUARTER
1975 AND BY 10 PERCENT THROUGH FIRST HALF.

FOURCADE ALSO CONFIRMED THAT COMPULSORY RESERVES
AGAINST TIME DEPOSITS WILL BE ABOLISHED JANUARY 1;
THERE WILL, HOWEVER, BE NO MODIFICATION OF BANKS'
RESERVE OBLIGATIONS AGAINST DEMAND DEPOSITS. ALSO
ON JANUARY 1, INTEREST RATES WILL BE RAISED ON ALL
FORMS OF SAVINGS.

FOURCADE SAID GOF CREDIT POLICY IN THIRD QUARTER
1974 HAD HAD RESTRICTIVE EFFECTS ON ECONOMY, BUT THAT
FOURTH-QUARTER RESTRICTIONS HAD BEEN "MORE NEUTRAL" AS
DEMAND HAD DECLINED SLIGHTLY BELOW ESTABLISHED CEILINGS.
HE ADDED THAT TOTAL BANK CREDITS (INCLUDING THOSE EXEMPT
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FROM RESTRICTIONS) WILL HAVE INCREASED ABOUT 17.5 PER-
CENT OVER COURSE OF 1974, COMPARED WITH ROUGHLY 15.5
PERCENT GROWTH IN MONEY SUPPLY.

3. TRADE DEFICIT NARROWS SHARPLY IN NOVEMBER -

WITH IMPORTS DECLINING FOR FOURTH STRAIGHT MONTH
AND EXPORTS AT HIGHEST LEVEL SINCE JUNE, FRENCH TRADE

DEFICIT DROPPED TO 218 MILLION FRANCS IN NOVEMBER
(SEASONALLY ADJUSTED, FOB-FOB). LATEST FIGURES REPRESENT
DRAMATIC TURNAROUND IN COMPARISON WITH FF 1.0 AND
1.5 BILLION DEFICITS IN SEPTEMBER AND OCTOBER, RESPECTIVELY;
ON UNADJUSTED BASIS TRADE ACCOUNT WAS ACTUALLY
IN SURPLUS FOR FIRST TIME SINCE 1973 OIL PRICE INCREASES.

SEASONALLY ADJUSTED IMPORTS DECLINED 2 PERCENT
FROM 19.9 BILLION FRANCS IN OCTOBER TO 19.6 BILLION IN
NOVEMBER. EXPORTS WERE UP NEARLY 5 PERCENT FROM

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18.5 BILLION TO 19.3 BILLION FRANCS IN NOVEMBER, FOR

98.8 PERCENT RATE OF COVER. SHARP RISE IN EXPORTS, HOWEVER, MANIFESTED ONLY IN RELATION TO OCTOBER'S DISMAL SHOWING; EXPORTS IN NOVEMBER WERE ONLY SLIGHTLY ABOVE AUGUST AND SEPTEMBER LEVELS. THUS, WHILE TRADE DEFICIT FOR FIRST 11 MONTHS OF YEAR AMOUNTS TO 17.1 BILLION FRANCS -- PROMISING DEFICIT FOR 1974 AS A WHOLE WELL BELOW FF 22 BILLION FIGURE FORECAST BY GOF LAST SUMMER -- IMPROVEMENT HAS ACCOMPANIED COOLING-OFF IN FRENCH INDUSTRY AND CONSEQUENT DECLINE IN IMPORT DEMAND, RATHER THAN ANY SURGE IN SALES ABROAD.

AS REPORTED PARIS 28628, COLLECTION OF CUSTOMS
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DATA IN OCTOBER AND NOVEMBER SERIOUSLY HAMPERED BY FRENCH POSTAL STRIKE. OCTOBER FIGURES HAVE BEEN REVISED, AND NOVEMBER RESULTS CONSIDERED PROVISIONAL:

FRENCH TRADE
(SEASONALLY ADJUSTED; IN BILLIONS OF FRANCS,
FOB-FOB)

	JUN	JUL	AUG	SEP	OCT	NOV
IMPORTS	20.3	22.1	21.4	20.3	19.9	19.6
EXPORTS	19.9	19.1	19.3	19.2	18.5	19.3
BALANCE	-0.4	-3.0	-2.1	-1.0	-1.5	-0.2

4. NEAR-TERM ECONOMIC OUTLOOK SPREADS LITTLE CHEER -

NOVEMBER SURVEY OF FRENCH ECONOMIC OUTLOOK BY BANK OF FRANCE PROJECTS SHARP REDUCTION IN LEVEL OF BUSINESS ACTIVITY FOR DECEMBER AND UNFAVORABLE OUTLOOK FOR THE FIRST MONTHS OF 1975. DECLINE IN DECEMBER PRODUCTION EXPECTED WITH LARGE NUMBER OF FIRMS PLANNING HOLIDAY CLOSINGS AND DRAWING-DOWN OF INVENTORIES TO LEVELS "MORE COMPATIBLE WITH THAT OF DEMAND." SOME INDUSTRIALISTS, HOWEVER, EXPECT DECLINE IN STOCKS TO REACH ITS LIMITS SHORTLY AND ANTICIPATE GRADUAL REVIVAL IN DOMESTIC DEMAND NEXT SPRING.

AMONG SECTORS, PRODUCTION OF INTERMEDIATE GOODS HAS DECLINED TO LEVEL BELOW THAT OF LAST NOVEMBER; OUTLOOK IS MIXED AMONG BRANCHES OF THE SECTOR, WITH SOME CONTINUING FAIRLY HIGH LEVELS OF BUSINESS. OUTPUT IN CAPITAL-GOODS SECTOR HAS BEGUN TO FALL BUT REMAINS ABOVE NOVEMBER 1973 LEVELS, AND OUTLOOK IS FOR SUSTAINED ACTIVITY AT PRESENT LEVELS FOR SEVERAL MONTHS. WHILE

THERE IS SCANT EXPECTATION OF ANY SUBSTANTIAL REVIVAL IN DEMAND BY FRENCH FIRMS OVER NEAR TERM, PROSPECT OF MAJOR CONTRACTS BEING SIGNED WITH OIL-PRODUCING COUNTRIES HAS LED TO SOME OPTIMISM FOR MEDIUM TO LONGER TERM.

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CONSUMER-GOODS SECTOR WAS ESPECIALLY HARD-HIT BY EFFECTS OF POSTAL STRIKE; SEVERAL BRANCHES REPORTED BUSINESS FELL OFF SHARPLY, OTHERS EXPERIENCED SMALLER THAN USUAL SEASONAL INCREASE IN TURNOVER. OVERALL OUTLOOK FOR SECTOR REMAINS HIGHLY UNCERTAIN, AND SEASONAL DECLINE IN DEMAND AT START OF NEW YEAR EXPECTED TO BE UNUSUALLY SEVERE.

5. BUSINESSMEN SEE SLACKENING IN OUTPUT, PRICE INFLATION -

DECEMBER SURVEY OF BUSINESS OPINION AND INTENTIONS BY INSEE (NATIONAL STATISTICS INSTITUTE) REVEALED "NEW AND PROFOUND DETERIORATION" IN GENERAL BUSINESS OUTLOOK. REGARDING FUTURE GROWTH IN INDUSTRIAL PRODUCTION, BUSINESSMEN SURVEYED WERE THE MOST PESSIMISTIC THEY HAVE EVER BEEN SINCE SURVEY BEGAN IN 1957. ACCORDING TO INSEE, HOWEVER, INTERPRETATION OF SUCH SOMBER CLIMATE MUST TAKE INTO ACCOUNT DISRUPTIONS SUFFERED BY FIRMS DURING POSTAL STRIKE.

UNFILLED ORDERS DECLINED SHARPLY IN NOVEMBER, PARTICULARLY IN INTERMEDIATE-GOODS SECTOR, TO AN UNKNOWN DEGREE DUE TO CUTOFF IN MAIL SERVICE. ORDERS FROM ABROAD HAVE DECLINED SINCE JULY BUT NOT TO EXTENT OF DWINDLING OF DOMESTIC ORDERS. FOREIGN ORDERS REMAIN AMPLE IN CAPITAL EQUIPMENT SECTOR, HOWEVER, IN WHICH RECENT DECLINE IN DEMAND APPEARS TO ORIGINATE

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SOLELY IN DOMESTIC MARKET. INVENTORIES OF FINISHED
GOODS CONSIDERED MUCH HIGHER THAN NORMAL.

INTENTIONS RESERVED FOR NEAR TERM, WITH 41 PERCENT
OF INDUSTRIALISTS SURVEYED INDICATING PRODUCTION CUT-
BACKS IN COMING MONTHS. REGARDING PRICES (THEIR OWN,
AS WELL AS INPUT COSTS GENERALLY), BUSINESSMENSURVEYED
EXPECT RATE OF INCREASE WELL BELOW THAT REGISTERED IN
FIRST QUARTER 1974 - ANTICIPATING POSSIBLE RETURN TO
1972 RATE OF ROUGHLY 6 TO 7 PERCENT ON ANNUAL BASIS.

6. MONEY SUPPLY UP 1.3 PERCENT IN SEPTEMBER -

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BROADLY-DEFINED MONEY SUPPLY (M 2) INCREASED
1.3 PERCENT IN SEPTEMBER TO 606.86 BILLION FRANCS,
ACCORDING TO SEASONALLY ADJUSTED STATISTICS RELEASED
BY NATIONAL CREDIT COUNCIL. SEPTEMBER INCREASE EQUALED
THAT FOR SEPTEMBER 1973, FOR AN EXPANSION OF 14.6 PER-
CENT OVER PREVIOUS 12 MONTHS AND 9.6 PERCENT INCREASE

SINCE FIRST OF YEAR.

WHILE CURRENCY IN CIRCULATION GREW LESS RAPIDLY IN SEPTEMBER (UP 0.3 PERCENT) THAN IN AUGUST (UP 0.7 PERCENT), DEMAND DEPOSITS SWITCHED FROM 1 PERCENT DECLINE TO 1.2 PERCENT INCREASE IN AUGUST AND SEPTEMBER, RESPECTIVELY. GROWTH IN NEAR-MONIES (UP 2.0 PERCENT TO FF 276.37 BILLION) INCREASED RELATIVE TO 1.2 PERCENT RISE IN AUGUST AND 1.5 PERCENT IN SEPTEMBER 1973.

7. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

30093 CONGRESSIONAL REQUEST FOR
INFORMATION DECEMBER 16, 1974

30173 U.S. INVESTMENT IN ST.
MARTIN DECEMBER 16, 1974

30292 MIFERMA NATIONALIZATION
AND BIAO DECEMBER 17, 1974

30940 UNEMPLOYMENT IN FRANCE DECEMBER 26, 1974

AIRGRAMS

A-611 FRENCH RESERVES IN NOVEM-
BER 1974 DECEMBER 12, 1974

A-618 FRENCH FOREIGN EXCHANGE
HOLDINGS DECEMBER 13, 1974

A-627 FRENCH FOREIGN EXCHANGE
HOLDINGS DECEMBER 20, 1974

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